



Payment On Account

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Payment On Account

(Disclaimer: I am not an accountant but this is just some information so you don't get caught out, as I really wish I had known this!)

When/if your NI contributions are over £1000 HMRC will switch your tax paying system to 'paying in advance' to help you not to get behind on payments.





HMRC Make A Prediction

So this is when HMRC make a prediction on your upcoming year's tax bill.

You have to pay 50% of the next year's tax bill at the same time as paying for this year (deadline is 31st Jan). And the other 50% of the next year by 31st July.





You Pay 150%

So basically, the first year of tax is a small bill as you will be paying tax for the months you have been self employed combined with the employed time you may have for that financial year.

Then the second year of trading (if you reach the £1000 NI contributions which is quite likely if you are working full time hours), the tax bill will be for the full 12 months of trade in that financial year plus 50% of the next years estimated tax bill. So it is important you have enough money set aside.





2 Advanced Payments

Then the next 50% is paid before 31st July. So you will have made 2 advanced payments towards your tax bill.

If your tax bill is more than predicted, you will then need to make a balancing payment before 31st Jan to settle the bill.





Help Spread The Cost

The idea of Payment On Account is to help spread the cost of the bill to make it easier.

But if you aren't expecting it and you have left your tax return to the deadline, and you suddenly find yourself paying 150% of your tax bill, a larger bill than you were expecting, it can be really stressful. So make sure you are prepared.





Don't Worry!

But don't worry about this too much, your accountant will sort this out for you and you will get letters through the post telling you what to pay and when.

All you need to do is religiously put money away each month into your tax fund space. Then you will have more than enough to pay your tax bill.





Not Optional!

DO NOT get caught out by this, paying HMRC is not optional, so make sure you prioritise putting this money away.





Buffer Fund

If you haven't been put onto Payment On Account, but you were close to the threshold (£1000 of NI contributions) then it would be a good idea to keep a buffer fund in your tax account of around £1500, which would help pay the 50% of the next years tax bill if you were to be put onto Payment On Account.





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For more information, this article explains Payment On Account really well:

<https://www.simplybusiness.co.uk/knowledge/articles/2021/09/payment-on-account-what-it-is-and-how-to-pay/>





Task:

Ensure you put money away in your tax money
space each month.

